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CROWS NEST INDUSTRIES LIMITED

SEVENTY-SECOND ANNUAL REPORT 1968

FOR THE YEAR ENDED DECEMBER 31, 1968
(Formerly The Crow's Nest Pass Coal Company, Limited)
Established 1897
Including Wholly-Owned Subsidiary Companies

423-4464

*CROW'S NEST PASS ELECTRIC LIGHT & POWER
COMPANY LIMITED

MORRISSEY, FERNIE & MICHEL RAILWAY COMPANY

THE CROW'S NEST PASS OIL & GAS COMPANY, LIMITED

FERNIE EQUIPMENT COMPANY LIMITED

THE TRANSPACIFIC EXPORT CORPORATION

KNIGHT LUMBER COMPANY LIMITED

E. C. LETCHER LUMBER COMPANY LIMITED

EAST KOOTENAY LUMBER COMPANY LIMITED

GOLD CREEK TIMBER COMPANY LIMITED

ST. MARYS LUMBER CO. LTD.

CROWS NEST FOREST PRODUCTS COMPANY LIMITED

CROWS NEST PLYWOODS LIMITED

KOOTENAY AND ELK RAILWAY COMPANY

*Principal assets purchased by B.C. Hydro and Power Authority
December 31, 1968

HEAD OFFICE: FERNIE, BRITISH COLUMBIA

BOARD OF DIRECTORS:

THOMAS F. GLEED, *Seattle*

WILLIAM R. PRENTICE, *Fernie*

BARRY H. BIGGS, *Seattle*

†NEIL B. IVORY, *Montreal*

HENRY C. JUDD, *Menlo Park*

JOHN W. PITTS, *Vancouver*

GEORGE V. POWELL, *Seattle*

F. DREWE PRATT, *Vancouver*

D. E. SKINNER, *Seattle*

†Elected October 1, 1968

OFFICERS:

THOMAS F. GLEED, *Chairman*

WILLIAM R. PRENTICE, *President*

M. BRUCE PEPPER, *Vice-President*

AUDITORS:

CLARKSON, GORDON & CO., *Calgary*

TRANSFER AGENTS:

CANADA PERMANENT TRUST COMPANY, *Toronto*

BANKERS TRUST COMPANY, *New York*

REGISTRARS:

NATIONAL TRUST COMPANY, LIMITED, *Toronto*

MANUFACTURERS HANOVER TRUST COMPANY, *New York*



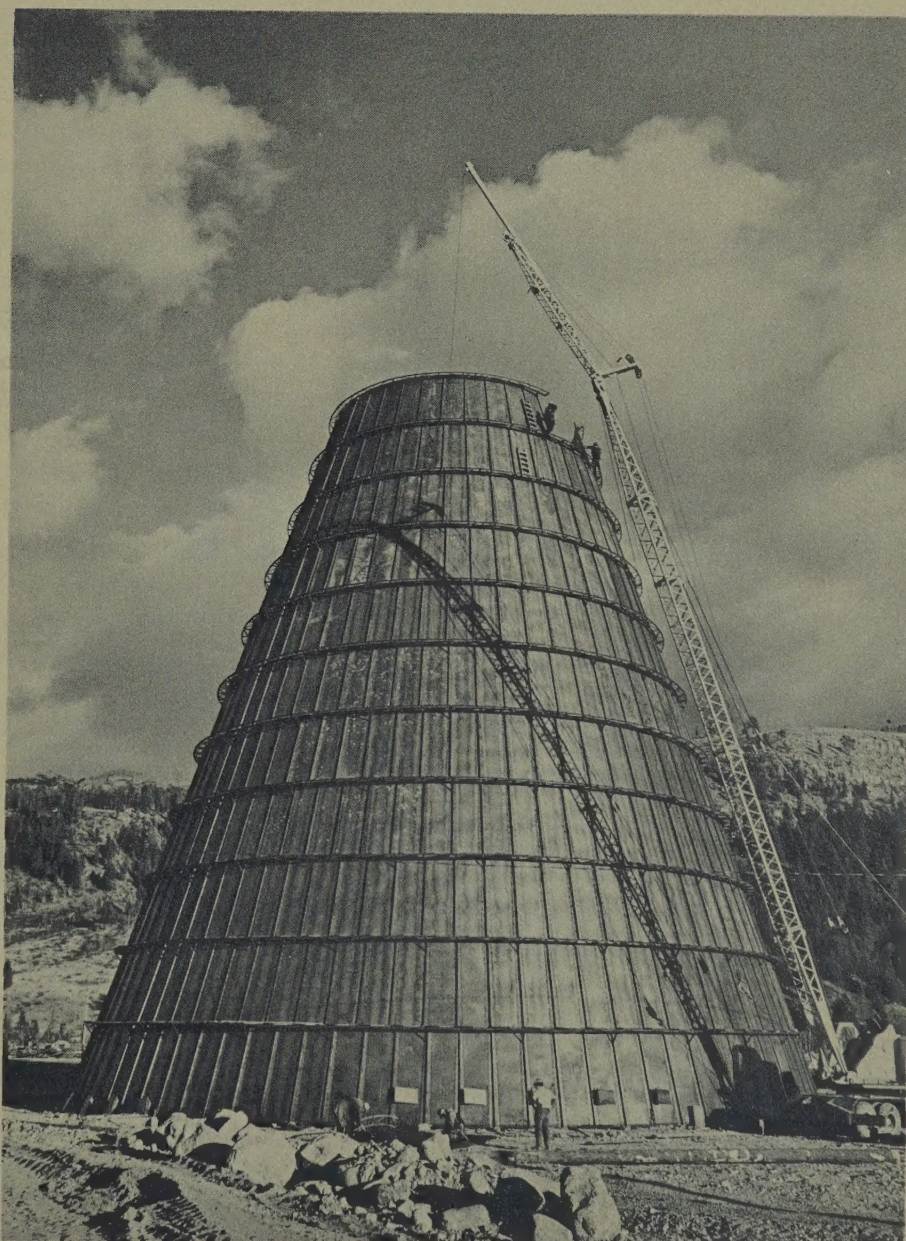
CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Six-year summary of comparative highlights

	1968	1967	1966	1965
Sales of all products.....	\$12,001,891	\$15,965,891	\$14,070,916	\$13,072,834
Net profit and special credits.....	\$ 479,449	\$ 380,964	\$ 554,512	\$ 1,085,898
Profit per common share*				
From operations.....	66¢	52¢	65¢	68¢
Special credits.....	—	—	12¢	83¢
Total.....	66¢	52¢	77¢	\$1.51
Common shareholders' equity*.....	\$17,142,497	\$10,102,823	\$10,235,615	\$10,146,722
Equity per common share*.....	\$23.45	\$13.91	\$14.12	\$14.12
Dividends declared*.....	\$ 548,025	\$ 544,256	\$ 540,619	\$ 551,756
Dividends per common share.....	75¢	75¢	75¢	75¢
Depreciation and depletion.....	\$ 637,450	\$ 1,134,975	\$ 1,318,585	\$ 1,184,957
Capital expenditures.....	\$ 2,394,660	\$ 1,089,638	\$ 1,803,848	\$ 2,848,548
Working capital.....	\$ (766,024)	\$ 472,797	\$ 888,041	\$ 1,246,482
Production – coal (tons).....	142,919	946,224	837,460	767,035
Production – coke (tons).....	22,380	144,147	154,999	142,468
Production – breeze (tons).....	2,318	15,016	16,544	15,028
Production – Lumber (fbm).....	39,489,957	47,831,535	68,813,323	68,375,793
Production – oil (bbls).....	205,728	191,174	170,008	182,933
Number of employees at year end.....	344	818	830	935
Common shares at year end				
Number outstanding.....	793,225	788,600	786,725	780,475
Percentage held by Canadians.....	24%	24%	28%	22%
Subsidiaries.....	8%	8%	8%	8%
Other.....	68%	68%	64%	70%
Number of shareholders at year end				
Canadian.....	252	305	364	311
Other.....	261	253	275	314

*Excluding shares held by subsidiaries.

1964	1963
\$ 8,868,843	\$ 8,580,081
\$ 1,061,762	\$ 720,389
69¢	\$1.01
79¢	—
\$1.48	\$1.01
\$ 9,569,615	\$ 9,044,193
\$13.38	\$12.65
\$ 536,340	\$ 549,503
75¢	75¢
\$ 795,570	\$ 773,931
\$ 2,518,488	\$ 510,036
\$ 2,192,182	\$ 2,109,941
834,234	756,284
131,689	134,370
12,518	11,395
24,275,253	17,435,569
224,063	230,492
823	754
777,170	777,170
17%	12%
8%	8%
75%	80%
247	201
355	403



Symbol of the increased tempo of construction in the East Kootenays during 1968 is this 135-feet high burner on the site of CNI's new mill complex at Elko.



Thomas F. Gleed, Chairman.

Management's Report to the Shareholders

February, 1968 marked a milestone in the history of your company and the region it serves.

As detailed more fully in last year's report, it was then that Crows Nest Industries, after a world-wide search for the financial and technical expertise required to turn idle coal reserves into a form beneficial to the entire economy of British Columbia, turned the reins of its mining operation over to Kaiser Coal Limited.

By formal agreement, Kaiser acquired, for shares and other payments, the coal and coking operations of Crows Nest Industries, including a subsidiary company, Balmer Mine Limited, and the major coal reserves under a portion of our property.

The successful conclusion of this agreement underscores shareholder confidence in management during the \$3½ million investment in research and development required to solve mining, transportation, and marketing problems.

In the swift months following, the Crows Nest region has come to enjoy a standard of prosperity too long denied.

Most dramatic has been the immediate upswing in capital investment in the area, coupled with improvement in the tax base and a sharp increase in housing starts and commercial construction. These, incidentally, have had the pleasant side effect of stimulating the local market for our timber products.

Your company, as a major landholder in the region, has cooperated with this growth by making necessary land available to Fernie and Sparwood at moderate cost.

Government assistance to the western mining industry, in the form of transportation subsidies during critical years, has proved a sound investment in the economic health of British Columbia. This support allowed Crows Nest to remain a payer of taxes and royalties – some \$17 million since 1897 – and a provider of jobs. It allowed shareholders to continue to risk their capital in assuring a world market for Canadian coal.

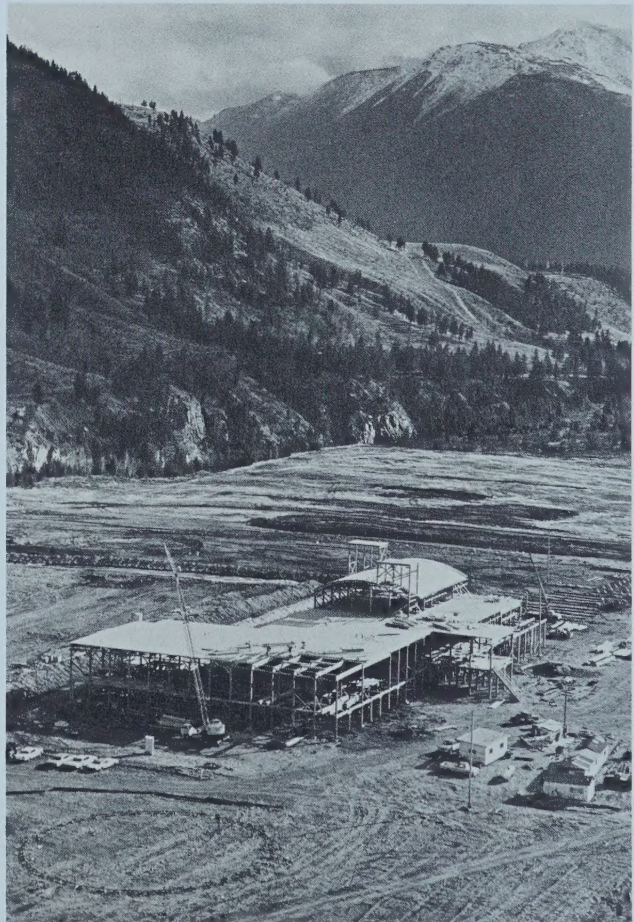
Crows Nest's sustained confidence in the future of its communities is further demonstrated by its investment in youth through an established scholarship program, and material support of the recreational and civic activities of our area.

Sale of the coal reserves focused our thrust on development of our other resources, timber and non-ferrous metals.

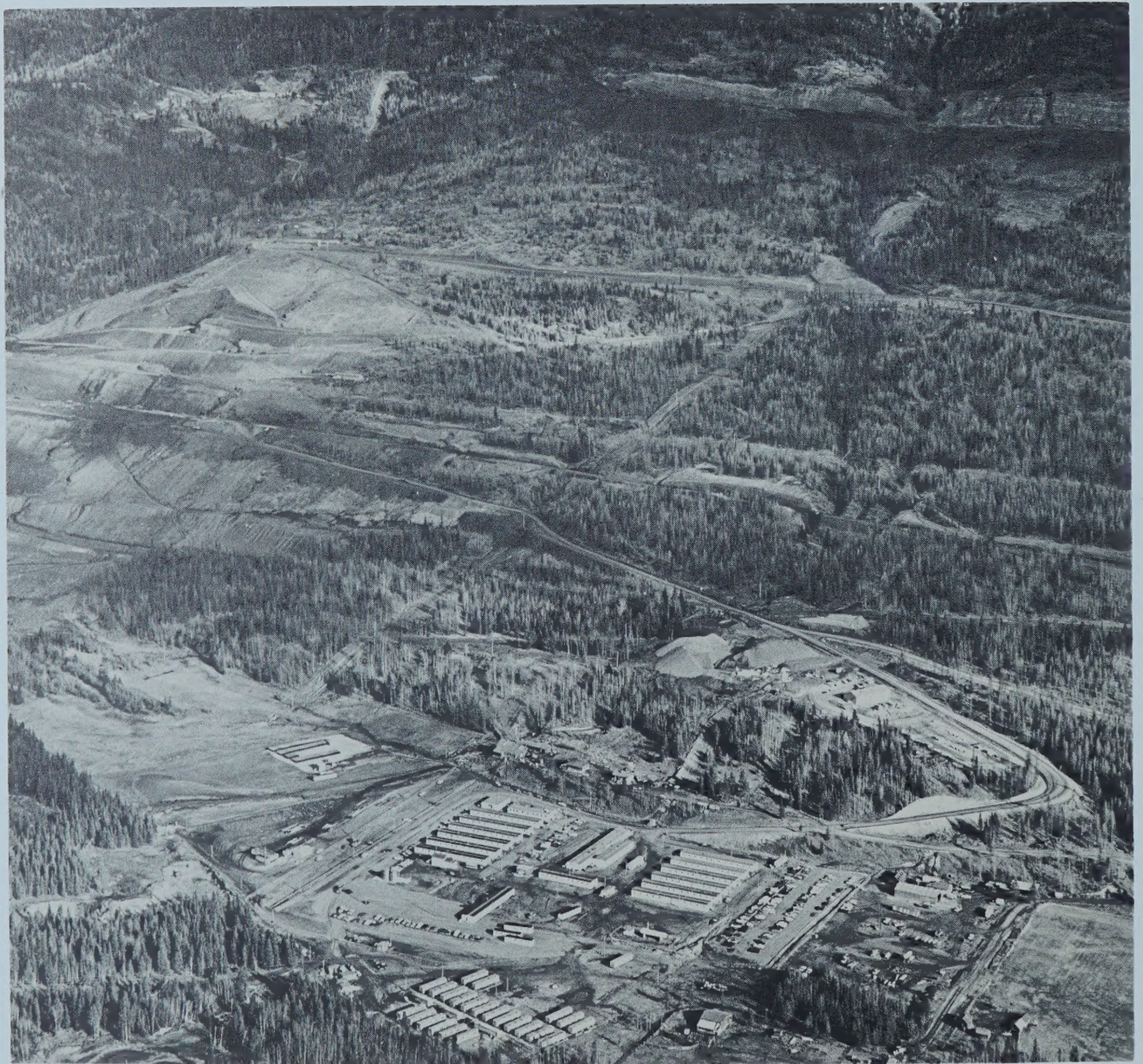
Programming for the most modern mill of its kind in British Columbia – the first designed specifically to conform to the close utilization policies established by Provincial Lands, Forests and Water Resources Minister, R. G. Williston – culminated in start-up of the new integrated Elko forest products complex on December 21.

By completion of second phase construction, estimated for May, 1969, the new mill will have a potential of 135 million

board feet a year of dimension lumber and boards, more than double our present capacity. Two-thirds of this output will be kiln-dried. Operations at Natal, old Elko, and St. Mary's are being phased out.



New Elko mill complex, built on a flat plateau at the southern end of the Company's property, permits consolidation of all forest products operations at one location.



Development of Crows Nest coal reserves is being accomplished in a \$75 million capital program of Kaiser Coal Ltd., centered at this construction site on the slope of Baldy Mountain, just north of Sparwood, B.C.

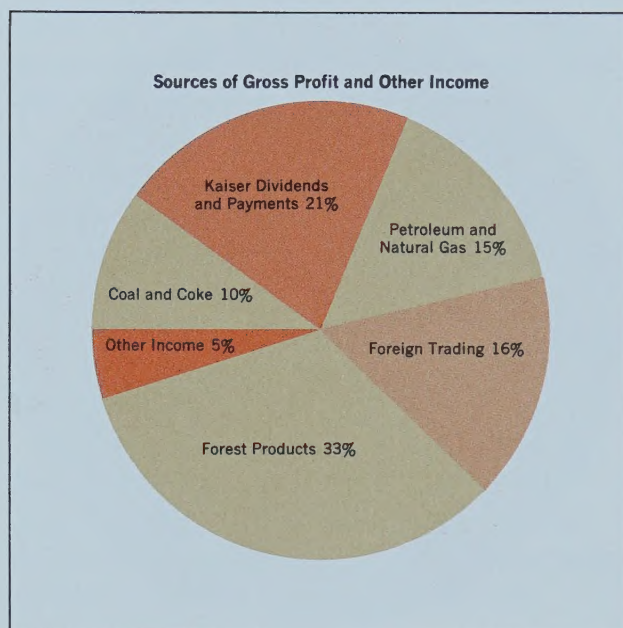
This highly automated Elko installation, with its expanded production and ability to handle logs down to a size previously uneconomic, will be a major source of employment in the area, providing jobs for almost twice as many men – namely 450 by the summer of 1969 – as had previously been engaged in our Forest Products Division.

Crows Nest continues to meet Provincial requirements necessary to assure us ample supplies of spruce and pine from the Fernie and Cranbrook Sustained Yield Units.

For 72 years, Crows Nest has been part of an industry which has been the economic cornerstone of British Columbia – the development of natural resources. As such, we have been, and continue to be, guided by the knowledge that conservation – the balanced use and harvest of resources – is not only good citizenship, but good business. It remains within our corporate best interests to cooperate with any program which perpetuates these resources – such as the Sustained Yield concept in timber – and mining practices which are in the public interest, both economically and aesthetically.

This we owe to the more than 2 million British Columbians and 20 million Canadians, urban and otherwise, who depend on resource-oriented companies for their livelihood, and to the public at large.

Despite considerably reduced operations from which to generate earnings, and other adverse factors mentioned below, net profit



for 1968 increased to \$479,449, as compared to \$380,964 in 1967. Per share earnings also improved to 66¢ from 52¢ per share in 1967.

These figures reflect 4½ months of a strike of the IWA against the southern interior forestry industry, stopping lumber production from October, 1967 to May, 1968, but are partially offset by rising lumber prices the last half of the year, and coal production for only the first two months of 1968. A major contribution to net profit came from dividends on the Kaiser shares held by the company and from cash payments by Kaiser.

Additional contribution to earnings came from The Transpacific Export Corporation whose net profit was up from \$62,000 in 1967



The Company's foreign trading operations have been further expanded with the opening of offices in San Francisco and Mexico City.

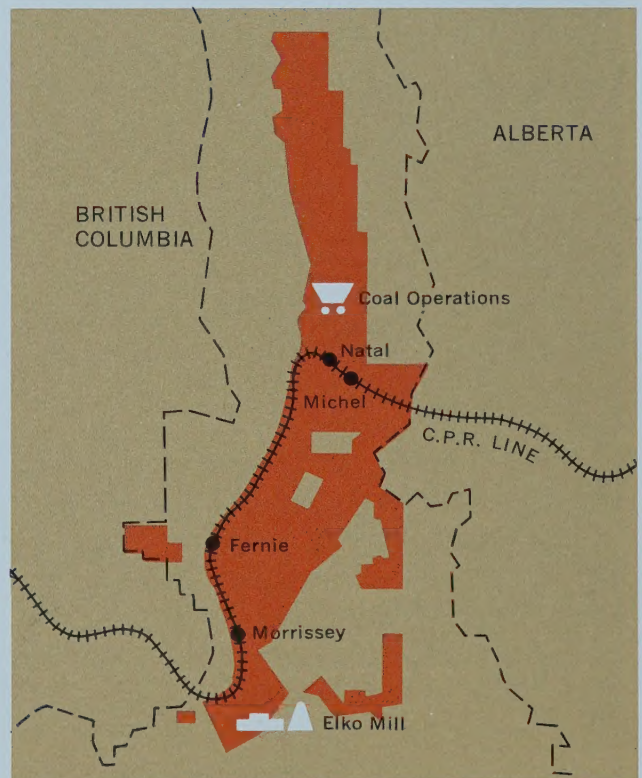
to \$86,000 in 1968. Outlets were added in San Francisco and Mexico City, the latter through acquisition of existing import-export operations. Through its Tokyo and Seattle offices, Transpacific continues to represent the Great Northern Railway in development of increased freight in Japan for movement over the GN's rail system in North America.

As noted in this report's list of subsidiary companies, the principal assets of Crow's Nest Pass Electric Light & Power Company were sold on December 31 to the B.C. Hydro and Power Authority.

While our emphasis must be on forest products, substantial funds were allocated to exploration during 1968 and this is a program that will continue.

Prospects for sustained long-term growth of the Company appear excellent and completion of our new Elko complex finds us in a booming market for our lumber products.

We sadly note the death, on October 6,



Property map shows the location of Crows Nest Industries' lands in the East Kootenay region of British Columbia. The coal reserves under a portion of these lands have been sold to Kaiser Coal Ltd.



The Crows Nest bench, overlooking the city of Fernie, is one of the substantial blocks of property made available for new housing to accommodate employees attracted by expanded coal and lumbering operations.

1968, of Mr. C. O. Jenks, Director Emeritus since 1965 and prior to that, a Director since 1957. A resolution reflecting our deep appreciation of Mr. Jenks' service to the company was recorded and sent to his widow and son by your Board.

We were pleased to welcome as a Director, that same month, Mr. Neil B. Ivory of Montreal, President of Woodford Investments Ltd., and a Vice-President and Director of Arbuckle, Govett and Company.

Crows Nest is proud of its role in making Balmer coal one of the most sought-after minerals in the world, through aggressive pursuit of a feasible mining and transportation program which eliminated the need for further government subsidies.

We take even greater pride in our role in bringing to Canada, in Kaiser, a company known not only for its technical excellence, but for its history of having improved the life of every community where it has lived.

Far greater than anything either Kaiser or Crows Nest Industries will realize as a just return on investment is their continued commitment to a policy of expending substantial financial and technological resources for the overall benefit of its region, British Columbia, and Canada.

THOS. F. GLEED, *Chairman.*

March 27, 1969.



CROWS NEST INDUSTRIES LIMITED
(Incorporated under the laws of Canada)
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Consolidated Balance Sheet December 31, 1968 and 1967

ASSETS

CURRENT:

	1968	1967
Cash.....	\$ 458,787	\$ 92,015
Term deposit.....	1,312,000	—
Marketable securities at cost, which approximates market value....	11,605	9,205
Accounts receivable.....	1,900,611	1,416,682
Inventories valued at the lower of cost or net realizable value.....	3,118,622	3,139,127
Prepaid expenses.....	57,799	148,969
Total current assets.....	<u>6,859,424</u>	<u>4,805,998</u>

INVESTMENT IN SHARES OF KAISER STEEL CORPORATION
(market value approximately \$23,000,000) (Note 2).....

12,186,495	—
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FIXED (Notes 1 and 3):

Forest Products –

Timber cutting rights and real estate less accumulated depletion of \$732,773 (1967 – \$592,452).....	1,691,221	1,620,608
Plant and equipment less accumulated depreciation of \$1,967,155 (1967 – \$2,052,721).....	1,097,223	1,564,161
Construction in progress.....	2,271,670	—

Petroleum and natural gas –

Acquisition and productive development costs less accumulated depletion of \$2,531,388 (1967 – \$2,496,914).....	963,240	1,013,422
Production equipment less accumulated depreciation of \$832,342 (1967 – \$736,924).....	418,028	497,804

Coal Mining –

Mines, real estate, plant and equipment less accumulated depreciation of \$13,503,476.....	—	5,509,132
	<u>6,441,382</u>	<u>10,205,127</u>

OTHER:

Mortgages receivable.....	43,549	53,602
Refundable deposits.....	227,805	231,995
Deferred expenses.....	575,622	1,148,308
Special refundable tax.....	38,026	38,479
	<u>885,002</u>	<u>1,472,384</u>
	<u>\$26,372,303</u>	<u>\$16,483,509</u>

See accompanying notes to consolidated financial statements.

STATEMENT 1

LIABILITIES**CURRENT:**

Bank loans and overdraft (Note 4).....	\$ 5,006,250	\$ 2,303,174
Accounts payable and accrued charges.....	2,502,011	1,665,111
Income and other taxes payable.....	117,187	225,721
Instalments of loans payable due within one year.....	—	139,195
Total current liabilities.....	<u>7,625,448</u>	<u>4,333,201</u>

LOANS PAYABLE (Note 4).....	<u>1,400,000</u>	<u>615,685</u>
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DEFERRED INCOME TAXES (Note 1).....	<u>204,358</u>	<u>1,431,800</u>
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SHAREHOLDERS' EQUITY:

Capital (Note 5) –

Authorized –

25,000 3% cumulative redeemable preferred shares
of \$100 par value each

1,250,000 common shares of \$8 par value each

Issued –

793,225 common shares (1967 – 788,600).....	6,346,667	6,309,667
Contributed surplus (Statement 2).....	111,625	60,500
Capital surplus.....	1,300,000	1,300,000
Earned surplus (Statement 2).....	<u>10,159,689</u>	<u>3,208,140</u>
	17,917,981	10,878,307
Less 62,050 shares of parent owned by subsidiary at cost.....	<u>775,484</u>	<u>775,484</u>
	<u>17,142,497</u>	<u>10,102,823</u>

On behalf of the Board:

T. F. GLEED, *Director.*

F. D. PRATT, *Director.*

<u>\$26,372,303</u>	<u>\$16,483,509</u>
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CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENT 2

Consolidated statements of surplus
for the years ended December 31, 1968 and 1967

EARNED SURPLUS

	1968	1967
Balance, beginning of year.....	\$ 3,208,140	\$ 3,371,432
Add:		
Net profit for the year (Statement 3).....	479,449	380,964
Gain on sale of coal properties and related assets (Note 1).....	7,485,125	—
	<u>11,172,714</u>	<u>3,752,396</u>
Deduct:		
Dividends paid.....	548,025	544,256
Provision for loss on retirement of sawmills (Note 3).....	465,000	—
	<u>1,013,025</u>	<u>544,256</u>
Balance, end of year.....	<u>\$10,159,689</u>	<u>\$ 3,208,140</u>

CONTRIBUTED SURPLUS

Balance, beginning of year.....	\$ 60,500	\$ 45,000
Excess of proceeds of sales of common shares during the year over par value thereof (Note 5).....	51,125	15,500
Balance, end of year.....	<u>\$ 111,625</u>	<u>\$ 60,500</u>

See accompanying notes to consolidated financial statements.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENT 3

**Consolidated statement of profit and loss
for the years ended December 31, 1968 and 1967**

	1968	1967
Sales:		
Coal and coke.....	\$ 1,859,577	\$ 8,168,608
Forest products.....	3,672,634	3,510,725
Petroleum and natural gas.....	556,358	548,754
Foreign trading.....	5,830,158	3,656,104
Other.....	83,164	81,700
	<u>12,001,891</u>	<u>15,965,891</u>
Cost of sales:		
Coal and coke.....	1,577,941	6,178,243
Forest products.....	2,736,955	3,105,674
Petroleum and natural gas.....	147,351	136,972
Foreign trading.....	5,366,190	3,420,792
Other.....	37,832	47,407
	<u>9,866,269</u>	<u>12,889,088</u>
Gross profit.....	<u>2,135,622</u>	<u>3,076,803</u>
Expenses:		
General and administrative.....	1,010,254	797,662
Interest and finance.....	192,900	208,052
Depreciation.....	424,563	907,960
Depletion.....	212,887	227,015
Exploration and development.....	221,425	10,232
Forest fire costs.....	—	196,070
Resource development studies.....	—	144,035
	<u>2,062,029</u>	<u>2,491,026</u>
Profit before other income.....	<u>73,593</u>	<u>585,777</u>
Other income:		
Dividends and cash payments from Kaiser Steel Corporation (Note 1).....	597,778	—
Miscellaneous.....	92,599	72,801
Profit before income taxes.....	<u>763,970</u>	<u>658,578</u>
Income taxes.....	<u>284,521</u>	<u>277,614</u>
Net profit for the year.....	<u>\$ 479,449</u>	<u>\$ 380,964</u>

See accompanying notes to consolidated financial statements.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENT 4

Consolidated statement of source and application of funds
for the years ended December 31, 1968 and 1967

	1968	1967
Source of funds:		
Operations –		
Net profit for the year.....	\$ 479,449	\$ 380,964
Add amounts not requiring an outlay of funds –		
Depreciation and depletion.....	637,450	1,134,975
Deferred income taxes.....	643	21,903
Total funds from operations.....	1,117,542	1,537,842
Increase in loans payable.....	1,340,983	301,018
Proceeds from issue of common shares.....	88,125	30,500
Total funds provided.....	2,546,650	1,869,360
Application of funds:		
Reduction in working capital arising from sale of coal mining assets to Kaiser Steel Corporation (Note 1).....	560,826	—
Expenditures on properties, plant and equipment and other assets (net)	2,676,620	1,740,348
Dividends to shareholders.....	548,025	544,256
Total funds applied.....	3,785,471	2,284,604
Decrease in working capital.....	\$ 1,238,821	\$ 415,244

See accompanying notes to consolidated financial statements.

Auditors' Report

To the Shareholders of
Crows Nest Industries Limited.

We have examined the consolidated balance sheet of Crows Nest Industries Limited and its wholly-owned subsidiary companies as at December 31, 1968 and the consolidated statements of profit and loss, earned surplus, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Crows Nest Industries Limited and its wholly-owned subsidiary companies at December 31, 1968, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 14, 1969.

CLARKSON, GORDON & CO.,
Chartered Accountants.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Notes to consolidated financial statements
December 31, 1968

1. Sale of coal mining assets

Pursuant to an agreement dated May 8, 1967, the Company, on February 29, 1968, sold its coal properties and related assets (excluding surface and other mineral rights) to Kaiser Steel Corporation, in exchange for:

(a) 351,351 common shares of Kaiser which have been recorded in the accounts at \$12,186,495, being the value placed on the coal properties and assets by the Directors on May 8, 1967;

(b) Cash payments receivable over the next succeeding five years which, including future dividends on the Kaiser shares, will total approximately \$3,000,000 (of which \$597,778 has been received and included in income in 1968);

(c) The assumption by Kaiser of the Company's Coal Production Assistance Act Loans of \$556,668;

(d) 50¢ per ton of coal produced and shipped from the properties after January 1, 1977 to a maximum amount of \$34,000,000 which will be included in income as received.

The resulting gain of \$7,485,125 (after reversal of deferred income taxes of approximately \$1,200,000 applicable to the coal properties) is included in earned surplus in the accompanying financial statements.

**2. Investment in shares of
Kaiser Steel Corporation**

The 351,351 shares of Kaiser Steel Corporation were received as partial consideration for the sale of the coal properties and assets (Note 1) and may not be sold by the Company prior to December 31, 1969 without consent, which consent the Company believes will be given promptly upon request. Based on quoted market price at December 31, 1968 the value of these shares amounted to approximately \$23 million; however because

of the number of shares involved and of the other factors referred to, this is not necessarily indicative of the amount which might be realized on sale.

3. Fixed assets

Depletion is provided on timber cutting rights and oil and gas interests on a unit of production method based on estimated remaining reserves of timber, oil and gas. Depreciation is provided on the reducing balance method based on the estimated useful lives of the plant and equipment.

At December 31, 1968 the Company had incurred costs of \$2,271,670 in connection with centralized sawmill facilities being constructed at Elko, British Columbia. The total cost of this sawmill is estimated at \$4,700,000.

Since the existing sawmills will be retired on completion of the new facilities, earned surplus has been charged with the estimated loss on retirement of \$465,000.

4. Amounts due to bank

Bank loans and overdraft and loans payable consist of:

Operating loans and overdraft.....	\$3,706,250
Foreign exchange loan.....	1,300,000
Total current.....	5,006,250
Construction loan due	
January 2, 1970.....	1,400,000
	<u>\$6,406,250</u>

Accounts receivable and inventories have been pledged as collateral security for the operating and construction loans and the foreign exchange loan is secured by hypothecation of the term deposit.



CROWS NEST INDUSTRIES LIMITED
AND WHOLLY-OWNED SUBSIDIARY COMPANIES

Notes to consolidated financial statements
December 31, 1968 - continued

5. Capital stock

4,625 common shares were issued during the year to officers on exercise of options for \$88,125 cash. The par value of the shares issued, \$37,000, was credited to share capital account and the balance to contributed surplus.

Other options may be granted to officers and employees in the future, and, at December 31, 1968,

8,250 shares are reserved under the Company's stock option plan for this purpose.

6. Statutory information

Included in profit and loss is remuneration of directors and senior officers of \$143,824 (including remuneration of directors in their capacities as directors and/or officers of \$85,454).



In addition to the construction employment, the new Elko mill adds 200 permanent jobs to the Crows Nest area.

